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MEMORANDUM FOR: D/OER, DD/OER, St/P/C
D/D, SA/ER

The attached contribution was prepared by [redacted] and handcarried to Mr. William Lang, Deputy Assistant Secretary, ISA DOD, on 19 December 1974 by [redacted] Ch/D/D. Various other Branches will be contributing to this project.



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(30 Dec 74)

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Contribution to Review of Security Assistance

Third World countries purchased or received as grant aid a record of more than \$7 billion of arms in 1973, bringing total arms orders during 1970-73 to more than \$20 billion (see Table 1). Western countries' share of the arms market constituted four-fifths of total sales. In 1973, nearly half the sales involved the United States, about 30% Western Europe, and 20% Communist countries. The USSR accounted for the bulk of Communist transactions.

Soviet Military Assistance Program

For almost two decades, the Soviet Union has employed military aid as a primary instrument for expanding its influence in Third World countries. Although a relative newcomer to the international arms trade, the USSR has extended nearly \$11 billion arms assistance to 33 LDCs since the mid-1950s (see Table 2).

The USSR, initially using East European countries as intermediaries, launched its military assistance program in 1955. In providing such assistance, Moscow became an advocate of LDC nationalism exploiting this phenomenon to the detriment of Western interests. Arab-Israeli tensions, Yemen's conflict with the United Kingdom over Aden, Pakistan's disputes with Afghanistan and India, and Indonesia's territorial conflicts

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were targets of opportunity initially exploited by the Soviet Union. The LDCs generally have sought Soviet arms for use against their neighbors and only occasionally, as in Sri Lanka in 1971, have Soviet weapons been acquired primarily to maintain internal security. In addition to the broader objective of undermining Western economic and political influence, Moscow has used its military aid program in an effort to weaken Western strategic interests and to eliminate Western military bases and alliances adjacent to Soviet borders.

The terms offered to Third World arms clients are very generous. Soviet arms are usually priced lower than comparable Western equipment and, in addition, are sold at discounts averaging about 40% from list prices. Cash sales make up only 5% of Soviet exports; the remainder is financed with credits of 8 to 10 years, after grace periods of 1 to 3 years, [redacted] The USSR generally accepts payment in goods and often eases the terms when a recipient is unable to make its payments. In response to Cairo's request in 1965 to reschedule its arms debt, Moscow cut the 1965-67 payments in half and deferred the balance until 1971. A further rescheduling postponed all payments until 1974. Afghanistan, Ghana, Indonesia, Somalia, and Syria also have had their military debts rescheduled.

On balance Moscow's military aid program has served Soviet objectives well. Although the USSR has acquired no ideological converts from its foreign aid, it has gained considerable influence and leverage. Soviet support for nationalist governments has contributed substantially to the weakening, or elimination, of Western influence in many countries and has led to an expansion of Soviet presence into the Middle East, South Asia, and North African regions. Moreover, a number of states -- Afghanistan, Algeria, Egypt, Iraq, Somalia, and Syria -- now are largely or almost totally equipped with Soviet military equipment and are continually dependent on the USSR for logistical and technical support.

Through its military technical assistance -- in conjunction with economic technical assistance and academic training -- the Soviet Union has exposed many of the nationals of these countries to socialist ideas and techniques. Through such exposure Moscow hopes to influence the institutional development taking place in the Third World. Moreover, it has established important relationships with military leaders, as well as junior officers, who in the future may hold key positions in their countries.

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Other Communist Suppliers

Eastern Europe

The military assistance programs of the East European countries -- Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania -- have been modest amounting to almost \$1.3 billion (see Table 3). Czechoslovakia provided about 90% of the arms. Egypt, Indonesia, Iraq, and Syria received the bulk of East European assistance. The East European countries have required faster repayments than the USSR, usually in hard currency; also they have given no discounts from list prices.

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The Peoples Republic of China (PRC)

The PRC, like the USSR, also initiated a military aid program to expand its influence in the Third World. The program has been restricted, however, by the PRC's own defense requirements and by the limited capabilities of its arms industry. Since the inception of the program in 1958, the Chinese have agreed to provide about \$490 million of arms to sixteen countries (see Table 4). Almost 70% has gone to Pakistan and 12% to Tanzania. Most of the PRC's aid has been provided as grants. The terms of the credit portions are not known, but they are believed to be long term, with low interest.

West European Arms Sales

West European arms sales to the Third World in 1973 topped \$2 billion for the first time, bringing 1970-73 sales to more than \$5.7 billion (see Table 5). During 1970-73, the United Kingdom provided over 40% of the total, France 32%, Italy and West Germany 10% each.

Economic considerations primarily underly West European arms sales to the Third World. This motivation has been particularly evident since the mid-1960s as West European arms dealers have moved aggressively into Third World arms markets. The large jump in oil prices during 1973 gave West Europeans added impetus to improve their deteriorating balance-of-payments position. The main thrust of this

drive has focused on the oil rich states, which not only have large and growing revenues but also can guarantee the continuing flow of oil.

As part of their sales promotion, West European arms exporters began extending credits of up to ten years at rates of interest averaging about 5% and granted special concessions to certain buyers. Most West European governments also provide credit guarantees to exporters for military sales. In addition, many exporters license the partial assembly, and even full production, of equipment in the recipient country. Little information is available on the terms currently being offered by the West European suppliers.

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In an effort to increase sales during the past year, several West European countries have relaxed some of the restrictions previously imposed on arms sales. Contract clauses that prohibited the transfer of equipment to Third countries now are being either omitted or ignored.

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In addition, West Europeans are willing to sell modern weapons systems to countries, they previously did not do business with. France and the United Kingdom, for example, have offered major weapons systems to Egypt and Syria.



Table 1

Value of Arms Sales to the Third World Countries, by Exporter 1/

	Million US \$				
	<u>1970-73</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
TOTAL	<u>20,435</u>	<u>3,625</u>	<u>5,140</u>	<u>4,475</u>	<u>7,195</u>
Non-Communist countries	<u>15,195</u>	<u>2,495</u>	<u>3,455</u>	<u>3,480</u>	<u>5,765</u>
United States 2/	8,985	925	2,030	2,550	3,480
Western Europe	5,745	1,520	1,165	835	2,225
Other 3/	465	50	260	95	60
Communist countries 4/	<u>5,240</u>	<u>1,130</u>	<u>1,685</u>	<u>995</u>	<u>1,430</u>
USSR	4,625	1,020	1,500	770	1,335
Eastern Europe	380	45	110	145	80
China	235	65	75	80	15

1. The data in this table represent sales and aid commitments and are to be differentiated from arms exports. Data have been rounded to the nearest \$5 million.

2. US data are by fiscal year. Consequently, they do not reflect the \$1 billion resupply effort to Israel following the October 1973 war.

3. Including Australia, Canada, Japan, New Zealand, South Africa, Yugoslavia, and several Third World countries.

4. All values of Communist country agreements at Soviet list prices, which are generally lower than prices of comparable equipment in the West. The Soviet dollar valuations do not indicate the cost of producing comparable items in the United States and cannot be converted into Soviet ruble costs by simply applying official exchange rates.

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3 December 1974

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MEMORANDUM FOR: Chief, D/I, D/D, D/S

SUBJECT : Contributions to Review of Security Assistance

1. A detailed review is in process of U.S. Security Assistance. The goal is to have the study completed sometime in January before Congressional hearings are held. I have been designated by the ADDI as the Agency representative on the Security Assistance Working Group chaired by William Lang, Deputy Assistant Secretary, ISA, DoD.

2. I have agreed that OER will undertake the following tasks:

-- Prepare a few paragraphs on each of the main recipients of U.S. security assistance -- Greece, Turkey, South Korea, Taiwan, Portugal, Spain, Philippines, Thailand, Indonesia, Israel, Jordan, and Brazil -- regarding their ability to finance over the next five years an increasing share of their defense needs through cash and credit purchases. Defense needs are not specified so we have to deal with this question in a general way. I suggest that one paragraph be devoted to describing the state of economy and balance of payments prior to the oil embargo, another on how the country has fared in 1974 and the outlook over the next five years. A final paragraph should cover the balance-of-payments implications of your forecast and what this means in terms of the country's ability to finance cash or credit purchases of arms.

-- Soviet, East European, and PRC arms aid and sales: provide details on the size and scope of their military assistance programs since the 1950s, the terms of sales and aid, and how they have used military assistance as a policy tool.

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workload

-- Provide much the same sort of material on Western arms suppliers, giving details on size, terms, objectives, etc.

3. To meet drafting deadlines contributions will be due to me on 20 December.

Deputy Director
Economic Research

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S-6667

26 December 1974

MEMORANDUM FOR: Mr. William Lang
OSD/ISA
Department of Defense

SUBJECT: Review of Security Assistance

Attached is our first cut at the individual country studies you requested. Once you have had an opportunity to review them we can discuss whatever revisions you feel might be useful.

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Deputy Director, OER

26 December 74
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Please attach this paper to your contributions. Each Branch can count this S-Project in the next month's issue of the Monthly Report for due credit. The above note is verbatim of that sent by DD/OER on 26 Dec 74.

B.C.
D/O

6 Jan 75

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3 December 1974

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CIA*

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